

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-213-W - ORDER NO. 2003-657
NOVEMBER 3, 2003

IN RE: Application of Lake Princeton Water)
 Company for Increase in Rates and Charges)
 for Water Service.)

ORDER 

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Lake Princeton Water Company (Lake Princeton or the Company) for approval of an increase in water rates for its residential customers in Lexington County, South Carolina. The Company is presently providing water services to 11 residents in Lexington County. Lake Princeton is presently operating under rates set by this Commission in Docket No. 84-88-W by Order No. 84-451.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing and Hearing, one time, in newspapers of general circulation in the Company's service area and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. No Petitions to Intervene were filed in this matter.

A hearing was held on October 9, 2003, at 10:30 AM in the offices of the Commission. As per State law, a panel, consisting of Chairman Clyburn and Commissioners Theodore and Atkins heard the case. Mr. Douglas H. Kinard, the owner of Lake Princeton, represented himself and testified as owner of the utility, and Sarah K. Black testified on behalf of the Company. The

Commission Staff (the Staff) was represented by Jocelyn Boyd, Staff Counsel. The Staff presented the testimony of Jacqueline Cherry and William O. Richardson.

Douglas Kinard testified on behalf of the Company. Mr. Kinard is the President and maintenance employee for the Company. Mr. Kinard has been associated with Lake Princeton since 1965, and the Company has eleven customers. Lake Princeton anticipates adding two new customers in 2003. Regarding the Company's request for a rate increase, Mr. Kinard testified that Lake Princeton has not had an increase in twenty years and that the Company cannot support administration and maintenance expenses under its present income. Further, Lake Princeton averages three to four leaks in the water line per year. Mr. Kinard testified that each leak takes from two to six hours to repair and the Company cannot afford to hire outside help.

Regarding his compensation from the Company, Mr. Kinard testified that he does not receive a salary but that he has received his water at no cost. Mr. Kinard also testified that he spends at a minimum eight to ten hours per month for routine pressure checking, line checking, meter checking, and cleaning.

Mr. Kinard also testified as to the Company's reasons for requesting a rate increase. At ninety-six to one hundred twenty hours per year and based on Mr. Kinard's income as a current employee of South Carolina Vocational Rehabilitation, Mr. Kinard believes he should be paid at least \$1,670.00 to \$2,091.00 per year. Mr. Kinard testified that at this time he is only requesting \$1,000.00 per year as salary from Lake Princeton. The testimony reveals that Mr. Kinard is sixty-one years old and had quadruple heart bypass surgery two and one-half years ago. Mr. Kinard stated that the maintenance work of the Company sometimes presents a severe strain.

Mr. Kinard also testified that Lake Princeton cannot afford, at the Company's currently approved rates, to hire outside plumbing assistance.

Ms. Sarah K. Black also appeared and testified on behalf of the Company. Ms. Black is the Secretary/Treasurer at Lake Princeton, and she is also employed by South Carolina Vocational Rehabilitation as an office assistant. She has been employed by Lake Princeton since 1975.

Ms. Black explained that Lake Princeton is seeking a rate increase because the Company has not had an increase in twenty years and the Company cannot support administration and maintenance expenses under the current income. Ms. Black also does not receive a salary from the Company; she receives her water at no cost.

In explaining her duties with Lake Princeton, Ms. Black testified that she spends three to four hours per month handling billing and administrative duties for Lake Princeton. Regarding the Company's request for a rate increase, Ms. Black testified that at thirty-six to fifty hours per year based on her current income, she opines that she should be paid at least \$600.00. Ms. Black testified that she has witnessed the problems her brother has maintaining the Company's pumps and lines and that she feels the rate increase is more than justified so that Lake Princeton can maintain proper service for its customers.

Jacqueline R. Cherry of the Commission's Audit Department testified on behalf of the Commission Staff. The Staff proposed some eight accounting and proforma adjustments including one adjustment for the proposed increase.

Adjustment No. 1 was proposed by the Utilities Department to annualize the water operating revenues by an adjustment of \$463 to reflect the billed revenue for the test year. The

Company proposes to annualize water operating revenues by an adjustment of \$464 to reflect the billed revenue for the test year. This adjustment includes billing the Company's owners for water service for the test year.

Adjustment No. 2 was made by the Audit Staff to make adjustments regarding the operation and maintenance expenses of the Company. As part of this adjustment, the Staff made an adjustment of (\$182) to eliminate test year electricity expenses that were not related to Company operations. Because this expense item was not related to utility operations, this item is considered non-allowable for ratemaking purposes. Also, the Staff made an adjustment of (\$150) to eliminate the test year DHEC surcharge expense. The Company, in its application, reflected this item as an on-going expense. DHEC's Safe Drinking Water Act annual surcharge expense is recoverable by the Company, as a separate item, in its water service customer billings. It comes under DHEC's jurisdiction and by statute is expressly excluded from this Commission's jurisdiction. The Company proposed to include Officers & Maintenance Salaries expense of \$1,000. This \$1,000 salary would be for the Company's President, who also performs maintenance duties for the Company. Mr. Kinard has been receiving free water service for services rendered in place of a salary. The Company did not pay salaries to Mr. Kinard or to its Bookkeeper/Secretary during the test year. Mr. Kinard stated that he spends approximately 8 to 10 hours per month performing his duties. Such duties include: signing off on each PSC & DHEC document as prepared by the Company's Secretary/Treasurer; checking pumps and the water supply quarterly; installing new meters as needed; fixing all leaks; checking pumps and water lines more often in severe cold weather; handling complaints; checking pressure on pumps daily; and interacting with customers. The Staff reviewed the duties of Mr. Kinard and did not

consider the requested amount to be unreasonable based on the duties performed. Therefore, the Staff accepted the salary adjustment proposed by the Company of \$1,000. The Company proposed an increase to \$120 for the Water Meter Reading and Maintenance labor expense. Terry Black, the spouse of Sarah K. Black, one of the Company owners, performs this function. His duties include: reading meters each month; checking for leaks in residences and water lines by checking meters; cleaning dirt out of meters each month; cutting weeds and brush to get to the meters; and killing ants and other insects. Based on the duties performed, the Staff did not consider the requested salary to be unreasonable. During the test year, \$60 was paid for this expense. Therefore, both the Company and the Staff increased this expense by \$60. The Staff and the Company propose to reduce pump repairs expense for the test year by (\$900) for the purchase of a new pump. Staff is of the opinion that the expense should be capitalized for ratemaking purposes. It should be noted that the Company proposed depreciation expense on this purchase. The Staff and the Company propose to reduce the materials expense by (\$136) for two meters with meter boxes purchased during the test year. Staff opined that the expense should be capitalized for ratemaking purposes. Additionally, the Staff and the Company propose to eliminate a test year equipment expense (a refrigerator) for (\$212) that was not related to Company operations. This type of expense, pertaining to non-regulated operations, is considered non-allowable for ratemaking purposes. The total amount recommended by Staff related to Operation and Maintenance Expense, which is Adjustment No. 2, is (\$520).

Adjustment No. 3 was made by the Audit Staff to include adjustments related to Administrative and General Expenses. The Company and the Staff proposed an increase in professional services expense to \$100 based on an increase in the accounting service fee for the

preparation of the Company's Annual Financial Reports. Staff verified the increase in the cost from \$50 to \$100 during the test year. The Staff's adjustment is based on a known and measurable change in test year expenses. Therefore, Staff increased this expense by \$50. The Company proposed a Bookkeeper/Secretary Salary expense of \$800 for Sarah K. Black, who performs administrative duties for the Company. Mrs. Black has been receiving free water service for services rendered in place of a salary because the Company could not afford salaries. Based on the duties performed by Mrs. Black, the Staff did not consider the requested salary of \$800 to be unreasonable. The Staff accepted the adjustment to include the salary proposed by the Company of \$800, as contained in its Application. The Company also proposed an estimated increase of \$17 for postage and office supplies expenses. The Staff did not include this proposed increase in expenses because the increase is not known and measurable at this time. Moreover, the Company proposed an estimated 20% increase, or \$637, to the Company's proposed expenses as a "Profit to the Company". The Staff did not accept the adjustment because "Profit" is not an expense item. A final adjustment made by the Staff regarding Administrative and General Expense is related to rate case expenses. Staff proposes to adjust expenses by \$16 to reflect, on a normalized basis, the costs of \$47 associated with the current rate case amortized over a three-year period ($\$47 / 3 \text{ Years} = \16). Staff used a three-year rate case amortization period because the Company did not have enough "rate case history" for Staff to compute an average of the periods of time between the Company's rate cases. The Company has only had one previous case before the Commission, a 1984 rate case for its present rates. The total amount recommended by Staff related to Administrative and General Expense, which is Adjustment No. 3, is \$866.

Adjustment No. 4 reflects adjustments related to Depreciation Expense, which total \$95. The Staff proposes to adjust expenses by \$90 to reflect the Depreciation Expense associated with a pump purchased during the test year. The Staff agreed with the Company's proposed Depreciation Expense adjustment on this item, also for \$90. Additionally, the Staff proposes to adjust expenses by \$5 to reflect the Depreciation Expense associated with meters and meter boxes purchased during the test year.

Adjustment No. 5 represents adjustments made to expenses related to Taxes Other than Income. The Staff and the Company propose to reduce test year property taxes to reflect the elimination of property taxes that were not related to Company operations. Because this expense related to non-utility operations, it is considered non-allowable for ratemaking purposes. The Staff adjusted this expense by (\$1,316). The Company's adjustment totaled (\$1,317).

Adjustment No. 6 refers to adjustments related to Water Service Revenue. The Utilities Department computed the total effect of the proposed increase to be \$1,683. The Company proposed an increase of \$1,821 in additional revenues.

Adjustment No. 7 refers to an adjustment related to Gross Receipts Taxes. The Company did not have any Gross Receipts Taxes per books. Therefore, the Staff proposes to compute Gross Receipts Taxes using the total proposed revenue of \$4,025 on an "After the Proposed Increase" basis. The Staff applied the most current gross receipts tax rate of 0.0080610529 to the amount of \$4,025, which produced a Gross Receipts Tax adjustment of \$32. The Company was not assessed a 2002 PSC Gross Receipts Tax Fee because the revenue was less than \$4,000. However, it is Staff's opinion that if the proposed revenue total of \$4,025 is approved, the Company will be assessed for the Gross Receipts Tax in the future.

Adjustment No. 8 relates to an adjustment for \$228. To account for the effect of the proposed increase, Staff computed income taxes of \$228 associated with the additional revenues. Staff used a 5% tax rate to compute state income taxes and a 15% tax rate to compute federal income taxes.

We find that Staff's proposals are reasonable as per the explanations cited, and therefore, we adopt same.

As to growth in the customer base, the Company's books indicated a "0" amount for customer growth. Customer growth was "0" because the number of customers (eleven customers) did not change during the test year.

The Commission Staff and the Company both propose to record the effect of the proposed increase in revenue. The Staff has calculated \$1,683 and the Company propounds \$1,821 as the proper amount. We adopt Staff's adjustment because we find Staff's adjustment more accurately reflects the proper recordation amount.

William O. Richardson of the Commission's Utilities Department also testified for the Commission Staff. Richardson noted, through testimony and exhibits, that under the present rates approved for the Company, the present revenue annualized is \$2,317. Using the proposed rates, the Company would receive \$4,000, resulting in an increase of \$1,683 or an increase of 72.64%. The requested increase in a customer's water bill (using 6,000 gallons) is \$12.75 or 73.91% per month. Mr. Richardson recommended that the Company install flow meters on each source so that a water audit as recommended in American Water Works Association Manual 36 (AWWA M36) could be performed.

FINDINGS OF FACT

1. Lake Princeton is a water utility operating under the jurisdiction of the Commission serving residents of Lexington County, South Carolina.
2. The Company has requested an increase in the base charge from \$7.50 per month to \$12.00 per month and an increase in the commodity charge from \$1.95 per thousand gallons to \$3.00 per thousand gallons; an increase in the reconnect fee from \$25.00 to \$50.00; and a tap fee of \$500.00 for new taps.
3. The system presently has 11 water customers.
4. The Commission Staff's adjustments should be adopted in toto.
5. The Commission Staff's report details the increase required in granting a 23.80% operating margin for water operations, which we adopt.
6. Lake Princeton is not required to install flow meters nor perform water audits as recommended in AWWA M36.
7. The Company is to move toward using a computerized billing system.

CONCLUSIONS OF LAW

1. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2002).
2. The Commission concludes that each of Staff's adjustments proposed by the Commission Staff is appropriate. Each of Staff's adjustments is hereby adopted pursuant to the reasoning stated above.
3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose

rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the “operating ratio,” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water service, the quality of service, and the effect of the proposed rates upon the consumers.

5. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a 23.80% operating margin for its operations. In order to have a reasonable opportunity to earn this operating margin, the Company will need to produce \$4,025 in total water operating revenues. This may be shown as follows:

TABLE A
OPERATING MARGIN

Operating Revenues	\$4,025
Operating Expenses	<u>3,067</u>
Net Operating Income	958
Customer Growth	<u>0</u>
Total Income for Return	<u>958</u>
Operating Margin	<u>23.80%</u>

6. The increase granted to the Company is a total of \$1,683.

7. The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing objective under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292

The Commission considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company. The Commission must balance the interest of the Company (the opportunity to make a profit or earn a return on its investment) while providing adequate water service with the competing interest of the ratepayers to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is just and reasonable for all concerned.

Considering these principles, the Commission holds that the granted revenue requirements should be spread among the Company's ratepayers by granting the Company's requested increase in the base charge from \$7.50 per month to \$12.00 per month and an increase in the commodity charge from \$1.95 per thousand gallons to \$3.00 per thousand gallons. Additionally, we grant an increase in the reconnect fee from \$25.00 to \$50.00 and a tap fee of

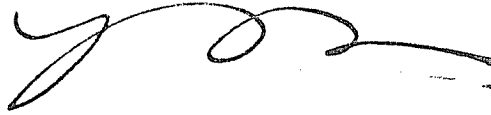
\$500.00 for all new taps installed after October 21, 2003. This amount is shown in Appendix A to this Order. Lake Princeton is not required to install flow meters nor perform water audits as recommended in AWWA M36. The Company is to begin using a computerized billing system. We believe that the record in this case supports these increases as outlined above.

IT IS THEREFORE ORDERED THAT:

1. The proposed schedule of rates and charges as filed in the Company's Application is found to be reasonable and is hereby granted.
2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2002).
3. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by the Commission.
4. The Company shall notify each customer of the herein approved increase in rates with the first bill that includes the new rates approved in this Order.
5. If the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Mignon L. Clyburn
Chairman

ATTEST:



Bruce F. Duke
Deputy Executive Director

(SEAL)

APPENDIX A

**LAKE PRINCETON WATER COMPANY
107 CRESTLINE DRIVE
WEST COLUMBIA, SC 29170
803-755-2556**

**FILED PURSUANT TO:
DOCKET NO. 2003-213-W
ORDER NO. 2003-657
RATES EFFECTIVE: OCTOBER 21, 2003
ORDER DATED: NOVEMBER 3, 2003**

WATER SERVICE

MONTHLY CHARGES:

**BASIC FACILITIES CHARGE.....\$ 12.00
COMMODITY CHARGE PER 1,000 GALLONS.....\$ 3.00**

RECONNECT FEE.....\$ 50.00

TAP FEE.....\$500.00